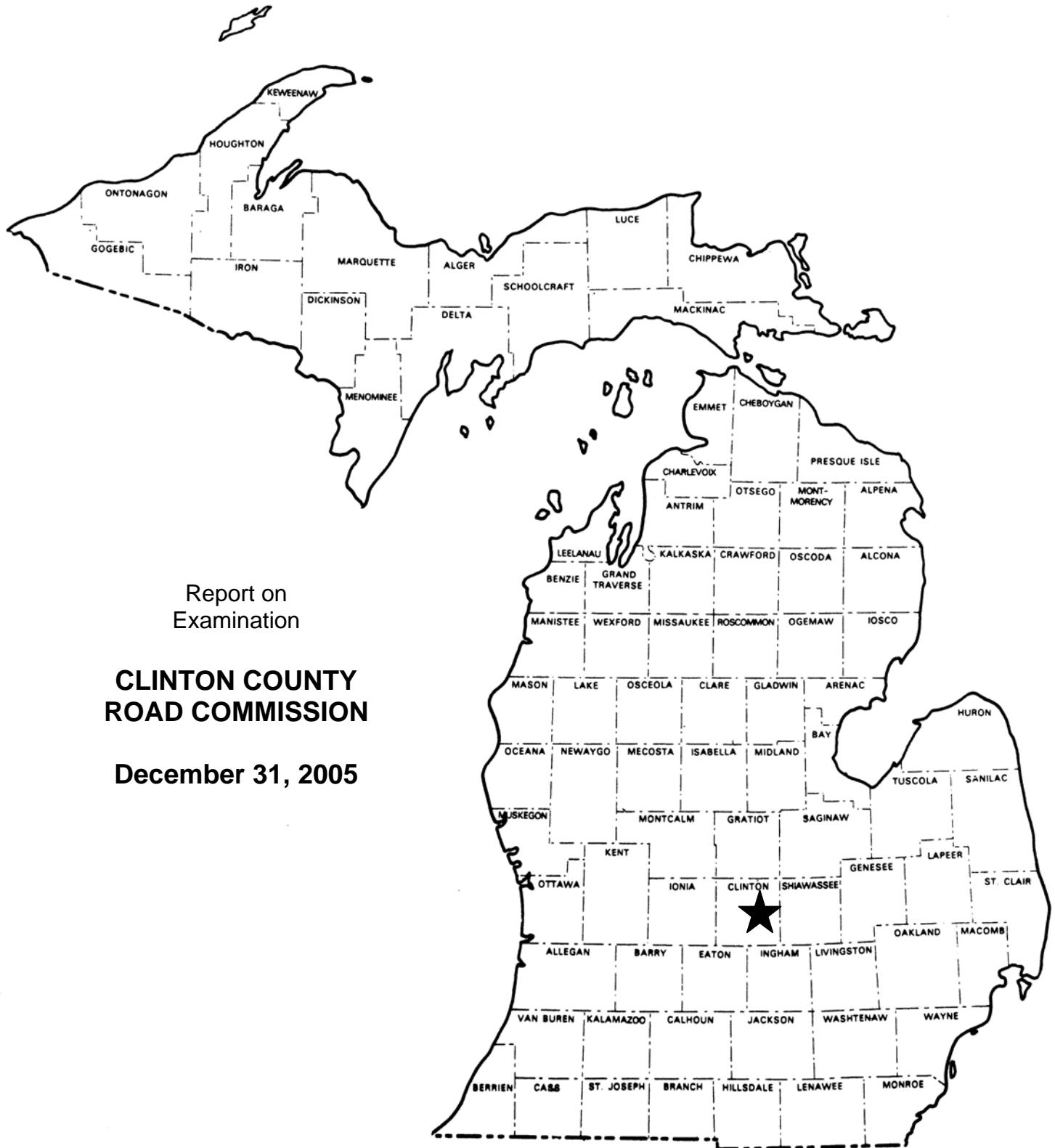


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**CLINTON COUNTY
ROAD COMMISSION**

December 31, 2005

CLINTON COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Donald J. Sisung
Chairman

Russel Bauerle
Vice Chairman

Francis Trierweiler
Member

Michael M. Nobach
Managing Director

Daniel Armentrout
County Highway Engineer

Patricia E. Wysong
Director of Finance/Clerk

COUNTY POPULATION--2000
64,753

STATE EQUALIZED VALUATION--2005
\$2,754,319,001



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 10, 2006

Board of County Road Commissioners
Clinton County
3535 South US 27
St. Johns, Michigan 48879

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Clinton County Road Commission, a component unit of Clinton County, Michigan, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinton County Road Commission as of December 31, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 and budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and generally accepted accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2006 on our consideration of the Clinton County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Clinton County Road Commission, taken as a whole. The accompanying supplemental and related information presented as Exhibits I through K are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

CLINTON COUNTY ROAD COMMISSION

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CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clinton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of their finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds, reporting the operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operations Fund, which is a governmental fund type.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental Fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the Fund Financial Statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$50,769,901 to \$52,837,768 for the year ended December 31, 2005. The net assets and change in net assets are summarized below:

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets--net of related debt) are considered restricted.

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in capital assets was mainly due to an increase of \$232,727 for subdivision road right-of-way accepted into the public road system, \$795,594 in land improvement expenditures on the road system, and \$1,678,885 in net addition to the infrastructure system.

The decrease in noncurrent liabilities was due to \$43,620 decrease in State Trunkline advances for equipment, \$7,500 decrease in the Piggott Pit gravel purchase contract, and \$40,009 increase in the vested employee benefits payable for 2005.

Net assets as of year ended December 31, 2005 follows:

	2004	2005	Favorable (Unfavorable) Variance	Variance %
Current and Other Assets	\$ 4,528,666	\$ 4,905,723	\$ 377,057	8.33%
Net Capital Assets	<u>47,764,090</u>	<u>49,323,267</u>	<u>1,559,177</u>	<u>3.26%</u>
Total Assets	<u>52,292,756</u>	<u>54,228,990</u>	<u>1,936,234</u>	<u>3.70%</u>
Non-Current Liabilities	995,898	988,787	7,111	0.71%
Other Liabilities	<u>526,955</u>	<u>402,436</u>	<u>124,519</u>	<u>23.63%</u>
Total Liabilities	<u>1,522,853</u>	<u>1,391,223</u>	<u>131,630</u>	<u>8.64%</u>
Net Assets				
Invested in Capital Assets				
Net of Debt	47,741,590	49,308,267	1,674,347	3.51%
Restricted	<u>3,028,311</u>	<u>3,529,501</u>	<u>501,190</u>	<u>16.55%</u>
Total Net Assets	<u><u>\$ 50,769,901</u></u>	<u><u>\$ 52,837,768</u></u>	<u><u>\$ 2,175,537</u></u>	<u><u>4.29%</u></u>

Changes in Net Assets

The net increase in total revenue was due to a \$6,415 increase in permit applications, a \$753,383 decrease in Federal Grants and a \$373,725 decrease in State Grants related to Federal/State funded projects, a \$372,443 decrease in contributions from local units from a decrease in township participation in projects, a \$34,852 increase in charges for services related to increased trunkline maintenance expenditures, a \$32,902 increase in investment earnings related to increased interest rates and an increased cash balance due to establishment of a building fund and discretionary fund, and a \$1,822,991 increase in private contributions related to an increase in subdivision roads constructed and accepted into the public road system. There was also a change in the definition relating to the capitalization of seal coat roads, in the past it was capitalized and now it is expensed. There was a net loss on the removal of the seal coat roads in the amount of \$107,670 during 2005.

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The net increase in total expenses was due to a \$561,324 increase in road maintenance costs primarily attributable to routine maintenance work, a \$101,414 increase in State Trunkline maintenance costs, a \$19,750 decrease in net equipment expense related to depreciation, a \$9,688 increase in administrative expense due mainly to increased depreciation expense, a \$36,858 increase in nonroad project costs mainly attributable to road reconstruction of Grand River Road within the Village of Eagle, and a \$15,712 decrease in drainage district due to a decrease in the county at-large drain assessment.

A summary of changes in net assets for the year ended December 31, 2005 follows:

	2004	2005	Favorable (Unfavorable) Variance	Variance %
Program Revenue				
License and Permits	\$ 98,295	\$ 104,710	\$ 6,415	6.53%
Federal Grants	1,466,259	712,876	(753,383)	-51.38%
State Grants	6,865,681	6,491,956	(373,725)	-5.44%
Contributions From Local Units	1,638,724	1,266,281	(372,443)	-22.73%
Charges for Services	1,396,114	1,430,966	34,852	2.50%
Investment Earnings	44,712	77,614	32,902	73.59%
Refunds and Rebates	376		(376)	-100.00%
Private Contributions	1,461,100	3,284,091	1,822,991	124.77%
General Revenue				
Gain on Equipment Disposal	71,517	79,579	8,062	11.27%
Loss on Infrastructure Removal		(107,670)	(107,670)	100.00%
Total Revenue	<u>13,042,778</u>	<u>13,340,403</u>	<u>297,625</u>	<u>2.28%</u>
Expenses				
Primary Road Maintenance	1,449,996	1,825,864	(375,868)	-25.92%
Local Road Maintenance	3,462,027	3,647,483	(185,456)	-5.36%
State Trunkline Maintenance	1,230,660	1,332,074	(101,414)	-8.24%
Net Equipment Expense	138,122	118,372	19,750	14.30%
Net Administrative Expense	465,602	475,290	(9,688)	-2.08%
Infrastructure Depreciation	3,156,876	3,603,328	(446,452)	-14.14%
Non-Road Project	145,800	182,657	(36,857)	-25.28%
Drainage District	57,371	41,659	15,712	27.39%
Compensated Absences	8,545	44,009	(35,464)	-415.03%
Interest Expense	2,400	1,800	600	25.00%
Total Expenses	<u>10,117,399</u>	<u>11,272,536</u>	<u>(1,155,137)</u>	<u>-11.42%</u>
Increase in Net Assets	<u>\$ 2,925,379</u>	<u>\$ 2,067,867</u>	<u>\$ 1,452,762</u>	<u>-25.50%</u>

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county that are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, program revenues exceeded program expenditures by \$1,025,120 while 2005 resulted in an excess of \$545,199 of program revenue over program expenditures mainly as a result of additional permit fees and work performed for other local units.

A summary of changes in the operating fund is as follows:

	2004	2005	Favorable (Unfavorable) Variance	Variance %
Revenues				
License and Permits	\$ 98,295	\$ 104,710	\$ 6,415	6.53%
Federal Grants	1,466,259	712,876	(753,383)	-51.38%
State Grants	6,865,681	6,491,957	(373,724)	-5.44%
Contributions From Local Units	1,638,724	1,266,281	(372,443)	-22.73%
Charges for Services	1,396,114	1,430,966	34,852	2.50%
Investment Earnings	44,712	77,614	32,902	73.59%
Other Revenue	1,532,993	3,363,670	1,830,677	119.42%
Total Revenue	<u>13,042,778</u>	<u>13,448,073</u>	<u>405,295</u>	<u>3.11%</u>
Expenditures				
Public Works	11,345,277	12,324,735	(979,458)	-8.63%
Capital Outlay	662,481	568,839	93,642	14.14%
Debt Service	<u>9,900</u>	<u>9,300</u>	<u>600</u>	<u>6.06%</u>
Total Expenditures	<u>12,017,658</u>	<u>12,902,874</u>	<u>(885,216)</u>	<u>-7.37%</u>
Excess Revenues (Over) Under Expenditures	1,025,120	545,199	(479,921)	-46.82%
Fund Balance Beginning	<u>2,592,346</u>	<u>3,617,466</u>	<u>1,025,120</u>	<u>39.54%</u>
Fund Balance Ending	<u>\$ 3,617,466</u>	<u>\$ 4,162,665</u>	<u>\$ 545,199</u>	<u>15.07%</u>

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions utilizing facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$2,658,688 higher than the original budget, primarily due to subdivision roads constructed and placed in the public road system as well as additional maintenance work performed on the county road system and additional winter maintenance activities on the State Trunkline system. The actual revenue recognized during 2005 was less than the final amended budget by \$1,736,506, with \$1,404,765 of this amount as a result of Federal Grant funded projects not being invoiced by Michigan Department of Transportation prior to the close of 2005.

The final amended expenditure budget for 2005 was \$2,813,884 higher than the original budget, primarily due to Federal Aid projects budgeted but not completed by the end of the year. There was also an increase in primary road maintenance expenditures of \$1,014,445 and an increase in local road maintenance expenditures of \$1,515,351 as a result of additional routine maintenance work performed. The actual expenditures recognized during 2005 were less than the final amended budget by \$2,436,901. This deficit of expenditures over budgeted projections was due primarily to Federal Aid road and bridge projects not completed in the amount of \$2,117,310.

Capital Assets

As of December 31, 2005, the Road Commission had invested \$568,839 in capital assets and \$5,348,843 in infrastructure assets including the addition of 5.85 miles of newly constructed public roadway. This amount represents a net increase (including additions and deductions) or \$1,559,177 as follows:

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

	2004	2005	Favorable (Unfavorable) Variance	Variance %
Capital Assets Not being Depreciated				
Land	\$ 283,750	\$ 283,750	-	0.00%
Land Improvements	4,188,541	4,984,134	\$ 795,593	18.99%
ROW Easements	582,825	815,551	232,726	39.93%
Subtotal	5,055,116	6,083,435	1,028,319	20.34%
Capital Assets Being Depreciated				
Buildings	1,735,798	1,735,798	-	0.00%
Depletable Assets	63,115	63,115	-	0.00%
Equipment	5,447,786	5,616,918	169,132	3.10%
Infrastructure	68,094,639	69,971,707	1,877,068	2.76%
Subtotal	75,341,338	77,387,538	2,046,200	2.72%
Total Capital Assets	80,396,454	83,470,973	3,074,519	3.82%
Total Accumulated Depreciation	32,632,364	34,147,707	1,515,343	4.64%
Total Net Capital Assets	<u>\$ 47,764,090</u>	<u>\$ 49,323,266</u>	<u>\$ 1,559,176</u>	<u>3.26%</u>

This year's major capital assets additions included the following:

Various Resurfacing Projects and Related POW	\$ 5,348,845
Trucks/Equipment	556,394
Shop Equipment	3,395
Office and Engineering Equipment	9,050
Total Additions	<u>\$ 5,917,684</u>

During 2005, the Road Commission traded in and/or disposed of equipment with a purchase amount of \$389,805 and related depreciation of \$383,805 with a net book value of \$6,000. A total of \$2,175,479 of infrastructure assets, fully depreciated, was removed from the capital asset account. Infrastructure assets classified as seal coat with a capital amount of \$267,977 and a related depreciation of \$160,306 with a net book value of \$107,670 were removed in 2005 as a result of a change in the Act 51 definitions for maintenance eliminating all seal coat operations from infrastructure asset classification.

In 2006, we are projecting the purchase of 2 tandem trucks with plows, 1 grader, 4 pickups, 1 rubber tires roller, 1 arrow/message board, 2 fuel tanks/tool boxes, 1 3pt. post hole digger, 1 sign truck with aerial boom, a shop drill press for \$5,000, computers and office equipment of \$10,625, and a proposed water/sewer connection estimated at \$300,000 for a total of \$920,290.

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

At the end of the year, the Road Commission had paid \$7,500 in principal on a purchase agreement for gravel reducing the balance to \$15,000.

Other obligations include accrued vacation pay and sick leave in the amount of \$633,164 at the end of 2005.

Economic Factors and Next Year's Budget

The Clinton County Board of Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 46% of its revenues from the fuel tax and license plate fees collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$135,379 (2.2%) more Michigan Transportation Fund revenue in 2006. The Road Commission received approximately 9% of its revenues from township contributions during 2005, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate in. In 2005, we received 24.4% of our revenue from contractor built subdivision road donations. During 2006, we expect to receive \$3,954,803 in Federal and State Aid for road projects if they are completed during the 2006 construction season. The Clinton County Board of Road Commissioners authorized an actuarial valuation of all post employment benefits with a determined unfounded liability of \$10,671,863 with \$6,340,965 represented by current retirees and \$4,330,898 represented by current employees. The Clinton County Board of Road Commissioners has established a trust fund through Michigan Employees' Retirement System for future employee retirement benefits with \$60,000 to be contributed to this fund in 2006.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the budget are \$15,778,980 representing an increase of 25.9% over the 2005 budget of \$12,525,891.

Contacting the Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Clinton County Road Commission's Director of Finance at 3536 South BR-127, St. Johns, Michigan 48879.

CLINTON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

ASSETS

Cash	\$ 3,314,866
Accounts Receivable	
Sundry Accounts	18,933
State--Trunkline Maintenance	208,381
Michigan Transportation Fund	966,013
Due on County Road Agreements	11,562
Inventories	
Road Materials	263,676
Equipment Parts and Materials	104,140
Deferred Expenses	18,153
Capital Assets (Net of Accumulated Depreciation)	<u>49,323,267</u>
Total Assets	<u>54,228,991</u>

LIABILITIES

Current Liabilities	
Accounts Payable	77,413
Due to State of Michigan	97,367
Accrued Liabilities	54,173
Performance Bonds Payable	173,483
Non-Current Liabilities	
State Trunkline Advances	340,623
Installment Purchase Agreements Payable--Due Within One Year	7,500
Installment Purchase Agreements Payable--Due in More Than One Year	7,500
Vested Employee Benefits Payable	<u>633,164</u>
Total Liabilities	<u>1,391,223</u>

NET ASSETS

Investment in Capital Assets--Net of Related Debt	49,308,267
Restricted for County Roads	<u>3,529,501</u>
Total Net Assets	<u><u>\$ 52,837,768</u></u>

The Notes to Financial Statements are an integral part of this statement.

CLINTON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,825,864
Local Road Maintenance	3,647,483
State Trunkline Maintenance	1,332,074
Net Equipment Expense	118,372
Net Administrative Expense	475,290
Work for Other Agencies	182,657
Infrastructure Depreciation	3,603,328
Drainage District	41,659
Compensated Absences	44,009
Interest Expense	1,800
	<hr/>
Total Program Expenses	11,272,536
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	104,710
Charges for Services	1,430,965
Operating Grants and Contributions	
Michigan Transportation Funds	6,153,612
Investment Earnings	77,614
Capital Grants and Contributions	
Federal Grants	712,875
State Grants	338,345
Contributions From Local Units	1,266,281
Private Contributions	3,284,092
	<hr/>
Total Program Revenue	13,368,494
	<hr/>
Net Program Revenue	2,095,958
	<hr/>
General Revenue	
Gain on Disposal of Capital Assets	79,579
Loss on Infrastructure Removal	(107,670)
	<hr/>
Total General Revenues	(28,091)
	<hr/>
Change in Net Assets	2,067,867
	<hr/>
Net Assets	
Beginning of Year	50,769,901
	<hr/>
End of Year	\$ 52,837,768
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2005**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 3,314,866
Investments	
Accounts Receivable	
State Trunkline Maintenance	208,381
Michigan Transportation Fund	966,013
Due on County Road Agreements	11,562
Sundry Accounts	18,933
Inventories	
Road Materials	263,676
Equipment Parts and Materials	104,140
Deferred Expense	<u>18,153</u>
Total Assets	<u><u>\$ 4,905,724</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 77,413
Accrued Liabilities	54,173
Due to State of Michigan	97,367
Performance Bonds Payable	173,483
Advances From State	<u>340,623</u>
Total Liabilities	<u>743,059</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	367,816
Unreserved and Undesignated	<u>3,794,849</u>
Total Fund Equities	<u>4,162,665</u>
Total Liabilities and Fund Equities	<u><u>\$ 4,905,724</u></u>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCES TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 4,162,665
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	49,323,267
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(648,164)</u>
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Net Assets of Governmental Activities	<u><u>\$52,837,768</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

CLINTON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
License and Permits	\$ 104,710
Federal Grants	712,876
State Grants	6,491,957
Contributions From Local Units	1,266,281
Charges for Services	1,430,965
Interest and Rents	77,614
Other Revenue	<u>3,363,670</u>
Total Revenues	<u>13,448,073</u>
Expenditures	
Public Works	12,324,735
Capital Outlay	568,839
Debt Service	<u>9,300</u>
Total Expenditures	<u>12,902,874</u>
Excess of Revenues Over (Under) Expenditures	<u>545,199</u>
Fund Balance--January 1, 2005	<u>3,617,466</u>
Fund Balance--December 31, 2005	<u><u>\$ 4,162,665</u></u>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 545,199
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Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,559,177
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	7,500
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	(44,009)
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Change in Net Assets of Governmental Activities	<u><u>\$ 2,067,867</u></u>
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The Notes to Financial Statements are an integral part of this statement.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Clinton County Road Commission conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Clinton County Road Commission.

NOTE A--REPORTING ENTITY

The Clinton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Clinton County Road Commission, a discretely presented component unit of Clinton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Clinton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets--net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined by the average unit cost method. An adjustment to inventory charged was made during 2003 due to the computer charging on a "first-in-first-out" basis, since it is the Road Commission's practice to charge by the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Clinton County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Schedule C equipment has no minimum cost, however. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	5 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. The Road Commission's chief fiscal administrative officer (Director of Finance) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and, subsequently, adopts an operating budget. Amendments to the budget are made only with board approval. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

NOTE D--CASH AND DEPOSITS

Deposits are carried at cost. Deposits of the County Road Fund are made in six banks in the name of the Clinton County Treasurer. Public Act 20 of 1943, as amended, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the GASB Statement No. 40, are as follows:

At year end (and during the year), the Road Commission did not have any investments other than long-term certificates of deposits, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$3,314,866</u>
Total	<u><u>\$3,314,866</u></u>

The bank balance of the Road Commission's deposits is \$3,357,169, of which \$600,000 is covered by Federal depository insurance.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended December 31, 2005.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that, changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Installment Purchase Contract				
\$75,500 Dated December 15, 1998	\$ 22,500	\$ (7,500)	\$ 15,000	\$ 7,500
Vested Employee Benefits				
Vacation, Sick Leave and Longevity	<u>589,155</u>	<u>44,009</u>	<u>633,164</u>	<u> </u>
Totals	<u>\$ 611,655</u>	<u>\$ 36,509</u>	<u>\$ 648,164</u>	<u>\$ 7,500</u>

Installment Purchase Contract

The installment purchase contract was entered into for aggregate sand and gravel. The agreement bears interest at 8% per annum and is payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 7,500	\$1,200	\$ 8,700
2007	<u>7,500</u>	<u>600</u>	<u>8,100</u>
Total	<u>\$15,000</u>	<u>\$1,800</u>	<u>\$16,800</u>

Vested Employee Benefits Payable

	<u>Balances 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balances 12/31/05</u>
Vested Employee Benefits			
Vacation Benefits	\$ 150,299	\$ 3,942	\$154,241
Sick Leave Benefits	325,840	23,589	349,429
Longevity	<u>113,016</u>	<u>16,478</u>	<u>129,494</u>
Total	<u>\$ 589,155</u>	<u>\$44,009</u>	<u>\$633,164</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--LONG-TERM DEBT (Continued)

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of an employee. Benefits earned by each employee are credited annually to his or her account on the anniversary date of employment. The maximum allowable accumulation is 240 hours. For administrative and office union employees, up to one-half of their accumulated vacation hours may be converted to cash within 6 months of their anniversary date. Road union employees may convert to cash in the week after their anniversary date. Union office and administrative employees would be paid zero if they leave without notice.

Sick Leave Benefits

The Road Commission's employment policies provide that every regular employee shall earn sick leave with pay at the rate of 2 hours per week, not to exceed 104 hours per year, with a maximum accumulation of 1,360 hours. Upon retirement or death, an employee shall be paid for all unused sick leave. One-half of accumulated sick leave shall be paid upon resignation of an employee. Payments to the employee or the named beneficiary shall be made at the prevailing rate of pay at the time of employment termination. Sick leave is recorded at 100% of maximum payable leave. Union office and administrative employees would be paid zero if they leave without notice.

Longevity Benefits

Administrative employees accumulate longevity of 24 to 48 hours per year, not to exceed 1056 hours maximum. Payment can be made at separation after 5 years of service. Longevity is recorded at 100% of maximum payable. Longevity is earned and can be sold on the anniversary date.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land	\$ 283,750			\$ 283,750
Infrastructure--Land/Right-of-Way	582,825	\$ 232,727		815,552
Infrastructure--Land Improvements	4,188,540	795,594		4,984,134
Subtotal	5,055,115	1,028,321	\$ -	6,083,436
Capital Assets Being Depreciated				
Buildings	1,735,798			1,735,798
Road Equipment	5,240,216	556,394	389,805	5,406,805
Shop Equipment	69,165	3,395		72,560
Office Equipment	105,512	9,050	9,900	104,662
Engineer's Equipment	22,684			22,684
Yard Equipment	10,207			10,207
Depletable Assets	63,115			63,115
Infrastructure--Bridges	23,512,935	33,063		23,545,998
Infrastructure--Roads	44,517,172	4,122,341	2,443,456	46,196,057
Infrastructure--Traffic Signals	64,532	165,120		229,652
Total	75,341,336	4,889,363	2,843,161	77,387,538
Less Accumulated Depreciation				
Buildings	826,666	44,986		871,652
Road Equipment	3,883,299	572,859	383,850	4,072,308
Shop Equipment	44,815	3,891		48,706
Office Equipment	70,112	16,181	7,977	78,316
Engineer's Equipment	18,845	691		19,536
Yard Equipment	766	1,021		1,787
Reserve for Depletable Assets	40,473			40,473
Infrastructure--Bridges	10,997,849	466,252		11,464,101
Infrastructure--Roads	16,741,597	3,136,763	2,335,785	17,542,575
Infrastructure--Traffic Signals	7,940	313		8,253
Total	32,632,362	4,242,957	2,727,612	34,147,707
Net Capital Assets Being Depreciated	42,708,974	4,889,363	4,358,506	43,239,831
Total Net Capital Assets	\$ 47,764,089	\$ 5,917,684	\$ 4,358,506	\$ 49,323,267

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 572,859
Indirect Equipment	
Buildings	28,266
Shop Equipment	3,891
Yard Equipment	1,021
Distributive Expense	
Buildings	12,496
Net Administrative Expense	
Buildings	4,224
Engineers Equipment	691
Office Equipment and Furniture	16,181
Infrastructure	<u>3,603,328</u>
Total Depreciation Expense	<u><u>\$4,242,957</u></u>

NOTE G--DEFERRED COMPENSATION PLAN

The Clinton County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457 with Public Employees' Benefit Services Corporation (PEBSCO). The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Clinton County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for all qualified employees is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC) with 5-year averaging for office and road union and 3-year averaging for administrative, with a maximum benefit of 80% of the FAC. Administrative retirees have a benefit 'E' plan allowing for a 2% annual increase. The most recent period for which actuarial data was available was for the year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. Based on the 2002 actuarial valuation, the 2004 rate for general-union/AFLCIO, administrative salary and administrative hourly employees was 6.88%, 10.91% and 8.35%, respectively, of annual compensation. For 2005, the actuarial valuation was based on the 2003 rate for general-union/AFLCIO, administrative salary and administrative hourly employees which was 7.55%, 12.40% and 7.43%, respectively, of annual compensation. Each member is required to contribute 3% of his or her annual compensation and 3% was paid by the employees for both years.

Annual Pension Cost

During the year ended December 31, 2004, the Road Commission's contributions totaled \$201,109 and the employee contributions totaled \$74,330, and were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002, and 3% employee share. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. During the year ended December 31, 2005, the Road Commission contributed \$224,418 and the employee's contributed \$74,327. Based on the 2003 actuarial valuation the road commission was required to contribute \$216,096 for the 2005 fiscal year.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Ended December 31</u>	<u>Pension Cost (APC)</u>	<u>Of APC Contributed</u>	<u>Pension Obligation</u>
2002	\$ 208,823	100%	\$0
2003	254,222	100%	\$0
2004	275,439	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 9,095,478	\$ 9,872,236	\$ 776,758	92%	\$ 2,335,984	33%
12/31/03	9,474,982	10,688,081	1,213,099	89%	2,401,406	51%
12/31/04	9,824,701	11,443,164	1,618,463	86%	2,411,623	67%

NOTE I--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses, in accordance with the agreement between the Road Commission management and the American Federation of State, county, and municipal employees, AFL-CIO – Office Union employees must retire with a minimum of 25 years of service and age 55 to be eligible for Road Commission paid health insurance for the retiree and spouse. If the retired employee wishes to purchase full family coverage, he shall pay the difference between the two-person and the full family rate. This provision applies to employees who retire after January 1, 1975 and who qualify under the MERS retirement program. Upon death of the retired employee, the Road Commission agrees to continue the above stated hospitalization insurance for the surviving spouse. For administrative employees, the Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses. If an employee dies with 20 years service time, the spouse is covered. Expenditures are recognized on a pay as you go basis as premiums come due. During 2005, 42 retirees and/or spouses were eligible for benefits, and \$434,678 was recognized for post-employment health insurance.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of PA 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool Program (Pool) operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

NOTE K--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2005, the Federal Aid received and expended by the Road Commission was \$712,875 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE L--FEDERAL GRANTS (Continued)

During the calendar year ended December 31, 2005, the Road Commission did not receive any Federal grants for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed during for the calendar year ended December 31, 2005.

NOTE N--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline Maintenance revenues of \$1,322,745 and expenditures of \$1,332,073 is the result of the Michigan Department of Transportation (MDOT) Trunkline Maintenance analysis for the 2002 calendar year, which resulted in a refund due to the Road Commission of \$24,427, an amount due to the State of \$37,996 for an audit of the State storage facility, and \$4,240.70 that was expensed but not billed to MDOT.

CLINTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 90,000	\$ 104,710	\$ 104,710	
Federal Grants				
Surface Transportation Program	780,773	610,773	225,464	\$ (385,309)
Hazard Elimination Safety	532,448	437,341	105,838	(331,503)
Critical Bridge	428,830	233,637	511	(233,126)
Enhancement Grant				
Congestion/Air Quality	160,800	155,890	58,943	(96,947)
Economic "D" Funds	680,000	680,000	322,120	(357,880)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	
Primary Road	3,455,800	3,561,800	3,561,229	(571)
Local Road	1,964,500	1,964,500	1,918,553	(45,947)
Primary Urban Road	419,200	479,200	478,097	(1,103)
Local Urban Road	149,700	186,700	185,733	(967)
Critical Bridge	85,840	85,840	96	(85,744)
Economic Development Funds				
"D" Funds	41,514	338,514	338,249	(265)
"A" Funds	375,000	78,000		(78,000)
Contributions--Local Units				
Cities and Villages	4,000	105,793	56,928	(48,865)
Townships	1,882,120	1,207,320	1,207,243	(77)
Other		2,110	2,110	
Charges for Services				
State Trunkline Maintenance	1,248,026	1,322,826	1,322,745	(81)
Salvage Sales	20,600	20,784	4,166	(16,618)
Service Charges	78,100	123,550	104,054	(19,496)
Interest and Rents				
Interest Earned	15,000	74,680	74,614	(66)
Property Rentals	1,640	4,640	3,000	(1,640)
Other Revenue				
Private Contributions		3,284,392	3,284,091	(301)
Gain on Equipment Disposal	102,000	111,579	79,579	(32,000)
Total Operating Revenue	<u>12,525,891</u>	<u>15,184,579</u>	<u>\$ 13,448,073</u>	<u>\$ (1,736,506)</u>
Total Revenue and Other Financing Sources	<u>12,525,891</u>	<u>15,184,579</u>	<u>\$ 13,448,073</u>	<u>\$ (1,736,506)</u>
Fund Balance--January 1, 2005	<u>2,230,112</u>	<u>2,230,112</u>		
Total Budget	<u>\$ 14,756,003</u>	<u>\$ 17,414,691</u>		

CLINTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction/Capacity Improvements	\$ 649,062	\$ 649,062		\$ 649,062
Preservation/Structural Improvements	2,921,990	2,536,598	\$ 1,598,505	938,093
Routine and Preventive Maintenance	801,300	1,817,725	1,817,711	14
Local Road				
Construction/Capacity Improvements		3,404,994	3,404,994	
Preservation/Structural Improvements	997,210	422,910	312,282	110,628
Routine and Preventive Maintenance	2,082,113	3,628,759	3,628,758	1
Primary Road Structure				
Preservation/Structural Improvements	3,303	2,477		2,477
Routine and Preventive Maintenance	10,134	8,154	8,153	1
Local Road Structure				
Preservation/Structural Improvements	600,150	450,113	33,062	417,051
Routine and Preventive Maintenance	50,020	18,725	18,725	
State Trunkline Maintenance	1,248,026	1,332,074	1,332,074	
Equipment Expense--Net	(904,240)	118,374		
Direct			\$ 1,080,139	
Indirect			709,380	
Operating			346,443	
Less: Equipment Rentals			<u>(2,017,590)</u>	2
Distributive Expenditures	2,429,170			
Administrative Expense--Net	376,353	490,872		
Administrative Expense			597,972	
Less: Overhead--State			(116,615)	
Overhead--Other			(696)	
Purchase Discounts			<u>(5,371)</u>	15,582
Work for Other Agencies		182,658	182,657	1
Capital Outlay--Net	416,125	225,320		
Capital Outlay			568,839	
Less: Depreciation Credits			(639,629)	
Equipment Retirements			<u>(7,878)</u>	303,988
Debt Service				
Principal	7,500	7,500	7,500	
Interest	1,800	1,800	1,800	
Drainage District	41,644	41,660	41,659	1
Contingencies	<u>794,231</u>			
Total Expenditures	12,525,891	15,339,775	<u>\$ 12,902,874</u>	<u>\$ 2,436,901</u>
Fund Balance--December 31, 2005	<u>2,230,112</u>	<u>2,074,916</u>		
Total Budget	<u>\$ 14,756,003</u>	<u>\$ 17,414,691</u>		

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 5,144,856	\$ 6,641,161	\$ 1,662,056	\$ 13,448,073
Total Expenditures	3,612,983	7,811,863	1,478,028	12,902,874
Excess of Revenues Over (Under) Expenditures	1,531,873	(1,170,702)	184,028	545,199
Other Financing Sources (Uses) Optional Transfers	(1,211,798)	1,211,798		
Total Other Financing Sources (Uses)	(1,211,798)	1,211,798	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	320,075	41,096	184,028	545,199
Fund Balance--January 1, 2005	976,677	838,477	1,802,312	3,617,466
Fund Balance--December 31, 2005	\$ 1,296,752	\$ 879,573	\$ 1,986,340	\$ 4,162,665

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits	\$ 28,271	\$ 24,272	\$ 52,167	\$ 104,710
Federal Grants				
Surface Transportation Program	225,464			225,464
Hazard Elimination Safety	105,838			105,838
Critical Bridge		511		511
Congestion/Air Quality	58,943			58,943
Economic "D" Funds	322,120			322,120
State Grants				
Michigan Transportation Fund				
Engineering	6,499	3,501		10,000
Allocation	3,561,229	1,918,553		5,479,782
Urban Roads	478,097	185,733		663,830
Critical Bridge		96		96
Economic Development Funds				
"D" Funds	338,249			338,249
Contributions--Local Units				
Cities and Villages			56,928	56,928
Townships		1,207,243		1,207,243
Other			2,110	2,110
Charges for Services				
State Trunkline Maintenance			1,322,745	1,322,745
Salvage Sales			4,166	4,166
Service Charges			104,054	104,054
Interest and Rents				
Interest Earned	20,146	17,161	37,307	74,614
Property Rentals			3,000	3,000
Other Revenue				
Private Contributions		3,284,091	-	3,284,091
Gain on Equipment Disposal			79,579	79,579
Total Operating Revenue	\$ 5,144,856	\$ 6,641,161	\$ 1,662,056	\$ 13,448,073

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,598,505			\$ 1,598,505
Routine and Preventive Maintenance	1,817,711			1,817,711
Local Road				
Construction/Capacity Improvements		\$ 3,404,994		3,404,994
Preservation/Structural Improvements		312,282		312,282
Routine and Preventive Maintenance		3,628,758		3,628,758
Primary Road Structures				
Routine and Preventive Maintenance	8,153			8,153
Local Road Structures				
Preservation/Structural Improvements		33,062		33,062
Routine and Preventive Maintenance		18,725		18,725
State Trunkline Maintenance			\$ 1,332,074	1,332,074
Equipment Expense--Net (Per Exhibit H)	26,172	59,920	32,280	118,372
Administrative Expense--Net (Per Exhibit H)	150,392	324,898		475,290
Work for Other Agencies			182,657	182,657
Capital Outlay--Net (Per Exhibit H)	-	-	(78,668)	(78,668)
Debt Service				
Principal	-	-	7,500	7,500
Interest	-	-	1,800	1,800
Drainage District	12,050	29,224	385	41,659
Total Expenditures	\$ 3,612,983	\$ 7,811,863	\$ 1,478,028	\$ 12,902,874



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 10, 2006

Board of County Road Commissioners
Clinton County
3535 South US 27
St. Johns, Michigan 48879

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Clinton County Road Commission, a component unit of Clinton County, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clinton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clinton County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance

with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Clinton County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division